RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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October 9, 1985 LETTER 923

Sept. 20 DJIA 1297.94; PTI 1904; A-D Ratio -15.73
Sept. 26 DJIA 1320.79; PTI 1894; A-D Ratio -16.15
Oct. 4 DJIA 1328.74; PTI 1901; A-D Ratio -14.94

THE PICTURE: The arguments are flying thick and fast. Is it a correction or is it a bear market? I've been reading advisory after advisory on both sides of the argument, and of course at this time nobody knows. As I've said so many times, there are no bona fide experts on Wall Street. There are only guessers or historians writing after the fact.

I've been thinking a lot about this picture, and I've tried to outline the best arguments on both sides. Here are a few of the pessimists' arguments, the arguments from those who believe this is a bear market.

The rise started in 1974 or if you want to be conservative in 1982. If the advance began in 1974, the bull market is now long in the tooth at 11 years of age. When a bull market is 11, any decline could be the start of a bear market, and this decline is probably it.

If you believe the base of the rise began in 1982, then you are still subject to the 4-year cycle. The next bottom after the 1982 bottom should arrive in 1986, and, if so, the market should be topping now, and a bear market should be underway.

The bears are also pointing to the Kondratieff cycle. That cycle runs anywhere from 52 to 56 years. Well, we're on the far side of the cycle if you take 1929 as the peak of the last great Kondratieff wave. And 1929 and 56 is 1985, and here we are.

Other bears are noting that the US consumer's biggest asset is his home -- real estate. Now note this quote from Barton Biggs of Morgan Stanley: "Anyone who believes that the real estate bubble of the 1970s will repeat in the '80s also believes in the tooth fairy. Just as long-term financial assets are in a secular bull market, in my view real estate is enveloped in a secular bear market and should be avoided now like the plague." (Thanks to Growth Stock Outlook for this quote.) So, the bears reason, if the real estate pie is gone, the nation is in for dreadful times. After all, when you talk about a bear market in real estate you're talking about the greatest portion of Mr. and Mrs. America's assets going down the rathole.

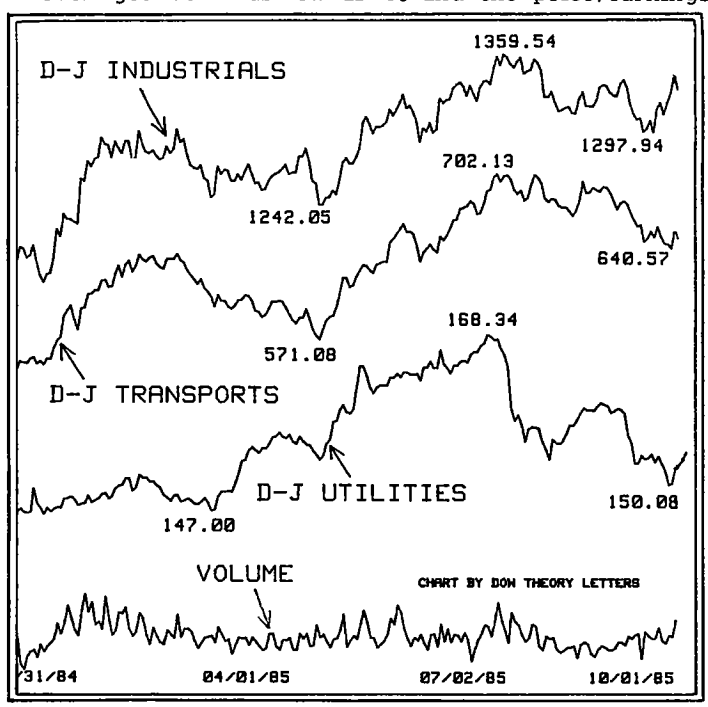
The bears also point to the market itself. All the major averages have been in head & shoulders top formations (see page 6, Letter 922). The majority of stocks, based on the Value Line Composite or the A-D ratio, has been leading the southbound parade. If the Dow was fully in gear with say the Value Line it would now be selling in the mid-1200s.

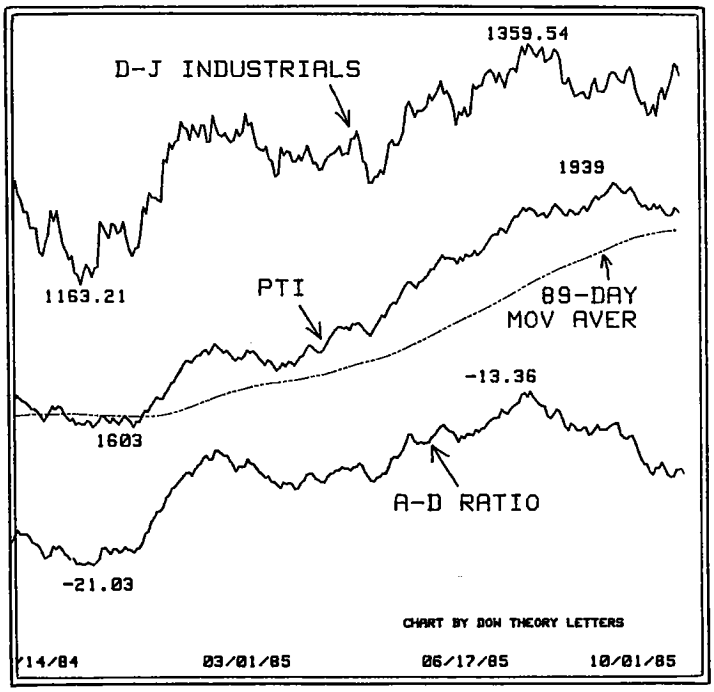
The bears state that the nation has been hoodwinked into thinking that the Federal Reserve Board "won't let a bear market happen". In fact, so much magical power has been attributed to the Fed that one can take a contrary opinion and actually blame the Fed for participating (or even leading) the forces which allowed America to be leveraged to the hilt.

Finally, there are those who say that bear markets are most likely to occur when they are least wanted -- when the nation can least afford to cope with them. And with the unbelievably high level of debt in the US today, a bear market would be tantamount to throwing a tiger shark into a pool full of geriatric swimmers.

All right, how about the primary bull arguments, the arguments from those who say that we are seeing a long-expected reaction (correction) within an ongoing primary bull market? The premier argument here is that bear markets don't start when the news is disturbing, when the newspapers are full of scary stories about the debt and the balance of payment deficits. Bear markets start when the skies are blue and when any market downturn is scoffed at. Bear markets start at a time when the market is exhausted on the upside due to over-speculation, optimism and unbridled public buying. In other words, bear markets begin when the very idea of a bear market is thought to be well-nigh impossible. This is hardly a description of the nervous (even fearful) market psychology of late-1985.

The bulls state that bear markets start when stocks are overvalued. Yet in 1985, the yield on the Dow never got down as low as 4% and the price/earnings





ratio for the Dow hovered around 12. That's hardly the kind of extreme overvaluation one would expect at the top of a great bull market.

The bulls claim that the public was never whipped to high levels of frothy enthusiasm during 1985. The fact is that the odd-lot public has been steady sellers, the short interest on both exchanges is at record levels, the specialists have kept their own shorting activity at low levels and stock margins have been at record levels with no signs of topping out.

Furthermore, state the bulls, there were no divergences in the averages at the highs, there were none of the technical "out-of-gear" movements that are so characteristic of major tops. In view of all this, why shout "Bear Market!" at what looks like a normal correction in an ongoing bull market?

All right now, let's examine the picture from the standpoint of the actual price structure. The Dow Industrial Average hit its record bull market high of 1359.54 on July 19. The Dow Transports hit their own record high of 702.60 on July 17. A broad decline set in and by Sept. 20 the Industrials touched a closing low of 1297.94. The Transports continued down to a Sept. 30 low of 640.57. The new lows in the Transportation Average were not confirmed by the Industrials. So far, the Sept. 20 Industrial low of 1297.94 has held (yes, I know all about General Foods and the upside antics of that takeover stock does NOT change the precepts of Dow Theory). What is important is that we did have a series of NON-CONFIRMED new lows in the Transportation Average and that is indicative of downside resistance. The market at the Sept. 30 levels was ready to rally.

The following is crucially important from the standpoint of Dow Theory. We now have definite downside market points on the Averages. At the recent September lows the D-J Industrial Average closed at 1297.94 while the Transports closed at 640.57. As long as ONE OR BOTH of these lows hold, I will consider the bottom of the reaction to have been seen (see page 1 chart).

For a further check, the D-J Utility Average hit a Sept. 26 low of 150.08, the NYSE Composite hit a Sept. 25 low of 104.55 and the S&P 500 hit a Sept. 25 low of 180.66. The longer these lows hold inviolate, the better the picture.

What about my Primary Trend Index (PTI)? The PTI still looks toppy (as per the Special Mailing of Sept. 20), but the PTI has NOT yet broken down. Referring to the page 2 chart, the PTI is now at 1901. This is roughly 30 points above the 89-day moving average which now stands at 1875. In the special mailing of Sept. 20 I showed that the PTI had formed a toppy pattern, and I stated that the odds favored a breakdown. But so far, there has not been a breakdown, and I can only hope that this positive mode continues.

Technical comments: The Value Line Composite is a very broad lower-quality index. The S&P 500 is a higher quality index weighted for stock capitalizations. When we take a ratio of the Value Line to the 500 we see an interesting picture. We see that the ratio topped out on June 10, 1983 and it has been going down ever since (a new low last week). Thus for almost 2½ years the lower-grade index has been lagging behind the higher quality index! This is not the kind of action I would expect at a major top. No, at or near a major top I would expect to see an explosion in the lower-grade issues (i.e., Value Line). It has not happened yet. In fact, just the opposite has occurred.

* *

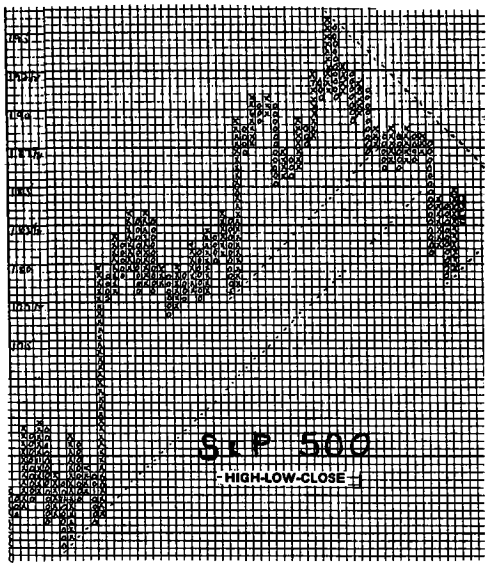
The percentage of NYSE stocks holding above their 10-week moving average hit its peak in February 1985 at 86%. The percentage has been declining ever since. The percentage is now down to a very low 16%, and on this study the market is oversold. This is the same low percentage that appeared at the February 1984 bottom.

INVESTMENT POSITION: One of the most valuable principles (and the one that is probably most ignored) states that the trend CONTINUES UNTIL PROVED OTHERWISE. The last primary signal given by the stock market was a bull signal, and until that signal is countermanded, we will operate as though the bull market is in force. Thus the bull stays in the box.

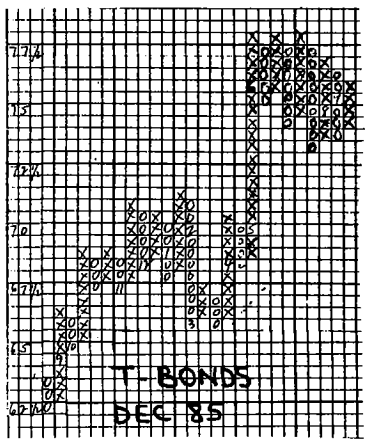
Personally, I've continued to hold most of my family's stocks with the exception of General Foods (a stock which I've often recommended in these reports). At its lofty takeover price, GF yields just over 2%. I therefore sold GF and switched the money to high-yielding utilities. I like Tucson Electric Power, Hawaiian Electric, Nevada Power, Utah Power and Light. Woolworth, often recommended here, acts like a winner. Its earnings are booming and the stock has been hitting new highs (believe it or not) without the benefit of takeover rumors.

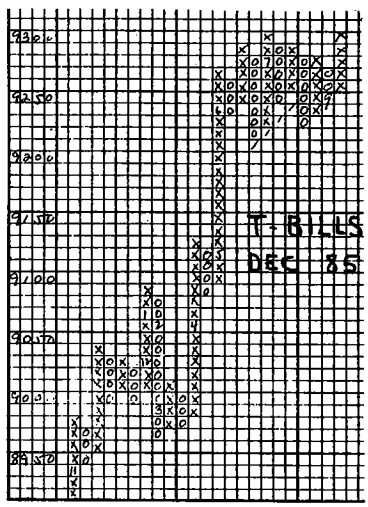
With the bond average fluctuating aimlessly in a trading range, I continue to hold all my Muni bonds.

CRITICAL CHARTS: At the end of each day I update the charts that I feel are "talking", the charts that are telling me what's happening and what may happen. So let's review a few of these charts now (all point & figure charts courtesy of Chartcraft, Larchmont, NY).



Starting with the S&P 500 chart, the 500 topped out in July at 196. An obvious head & shoulder top formed, and the 500 Composite then broke down to 179½ in September. Last week saw a rally to 185, the rally thereby bettering the preceding peak of 184½. Bettering a preceding peak is hopeful, but it would be vastly more hopeful if the S&P could better its descending trendline at 189. Obviously, a renewed plunge below 179½ on the 500 would be bearish. The S&P 500 appears to me to be forming a bottom.

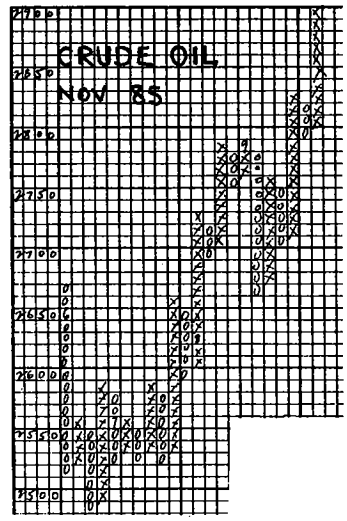


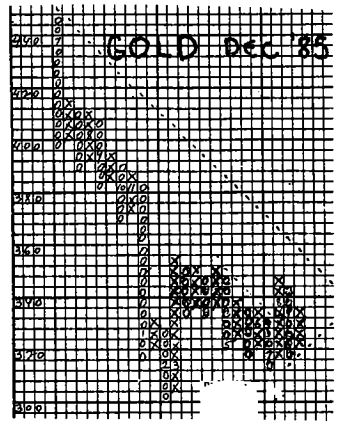


Treasury bonds (Dec contract) have formed a large consolidation or indecision pattern. A break down to 73 would be bearish for the bonds, while it would require a rise first to 77½ and then to 78½ to turn the bonds strongly bullish. I'm beginning to think that the bonds will ultimately break out on the upside. Meanwhile, note that the T-bills (a reflection of short-term money rates) are pushing against their highs (basis Dec. contract). However, technically,

the bonds should confirm the bills and so far they have not done so. I rate the bond-bill picture as neutral but hopeful.

The crude oil situation despite all the nonsense you read and hear, has been bullish since last June, and I have repeated this story over and over again in these Letters. Here's the November oil contract at 29, a good $4 above its June bottom. Russian oil production is now contracting, and Iranian oil is in jeopardy. Oil stocks are low, winter is almost here,and the oil shorts have been squeezed against the wall. Last week the big international oil stocks





popped with much-recommended (by me) Exxon rallying to near its all-time highs.

Gold: Despite the tedious performance of the yellow metal, it does appear as if gold has etched out a bottom with a February 1985 low of 284 and a higher July low of 316. An August rally to 348 (basis Dec contract) turned gold technically bullish. From 348 gold sank back to 320, a move which has discouraged many fans of the metal.

Nevertheless, I do see a bottom forming despite all the talk of deflation and an "impending final collapse in precious metals". What can we look for from here? It would take a drop to 312 to turn gold bearish again. On the upside a rise to 352 (Nov contract) would be bullish, and a further rise to 360 would be extremely bullish. An advance to 364 would reverse that bearish descending trendline and would be a strong signal for a renewal of inflation.

The feeling among many sophisticated Fed watchers is that 340 gold is the pivotal point, and that the Fed will keep pumping the money supply as long as gold remains BELOW 340. If gold (spot) rises above 340 it is felt that the Fed will pull in the money reins. Personally, I suspect that this view is correct.

What am I doing about it? I am buying a fixed number of Maple Leafs each month, and I'm putting these away for my grandchildren. In case you're wondering, I believe that Krugerrands are now a good buy, despite the dopey "Ronnie Ban". There's been a surge of investment in the "investment grade" rare coins, but here you're not buying gold, you're buying a collectible trend. Most people (unless they're pros) get taken when they play with collectibles.

I see gold as "cheap" here, based simply on the fact that there is more and more world paper being printed against the current quantity of gold. However, I also see gold as strictly a hedge, not as an investment. Remember, an investment pays you a return on your money. You can get rich by simply sitting with a true investment, and that is not true of gold.

Speaking of investments, each week I divide the yield on the S&P municipal bond average by the yield on the S&P Long-term Bonds. This week the ratio is a shocker with the Muni yield at 9.53% and the Long-term Governments at 10.51 for a fat ratio of 90.68. That means that tax-free muni bonds now yield 90.68% of taxable Treasury bonds. Why is this? With

the rush to bring out industrial revenue muni bonds prior to a possible new tax bill, the supply of munis has been huge. This has pushed down the price of ALL munis including the best and the worst. The over-supply has put top-grade state general obligation munis on the bargain table (compared with Treasury bonds). Long-term California GOs now yield 9% -- equal to 18% return in the high tax brackets. How else can you garner a comparable safe 18% return? I can't imagine, unless you're a bosom buddy of Warren Buffet or Boone Pickens, and even those guys can make mistakes. We won't even talk about the Hunts.

SUNDRY QUESTIONS: Question: I see ads in New York, California and other states for double and triple tax-free funds? What's this all about?

Answer: These are ads either for unit trusts which specialize in a particular state or for no-load bond funds specializing in a single state. Thus a "triple tax-free" fund for New Yorkers, for instance, would provide income free of city, state and federal taxes.

Question: Am I better off with a unit trust or a no-load fund dealing in muni bonds?

Answer: If you are prepared to hold the fund for a good period of time (say 10 years) I prefer the unit trusts. These are simply collections of bonds which are sold in units, often units of $5,000 each (or even less). There is a load charge for these units, but when inquiring find out the current yield. The current yield includes the front-end load charge. Once the initial commission is paid, there is no management fee so the initial charge can be amortized over the life of the unit trust. There is a bit of management in the unit trusts in that occasionally one bond will be switched for another but in general the unit trust bonds are pretty well fixed and there is little or no trading.

Question : Isn't the no-load muni fund better in that there is no commission?

Answer: Not necessarily. There is an annual management charge for the no-load muni bond funds, usually around .5% of assets each year. For a quick jump in and out, the no-load funds are superior to the unit trust. But there is one important and little-understood disadvantage in the no-load fund. Unlike the unit trust where at maturity you will get par value of the bonds (and therefore most or all of your original money back), the no-load fund can conceivably perform poorly through unwise trading and you could end up with 50¢ on the dollar. In other words, the no-load muni bond fund is only as good as the management or the market. There is no guarantee of what you will get back -- no matter how long you hold the fund. For instance, I remember charting Fidelity's Municipal Bond Fund many years ago when it was over 14. The Fund is now just over 7. You can hold this Fund forever and not be sure of getting even 10 for it. What happened? Management fees and lower bond prices whittled the value of the fund away. This would not be true of unit trusts which will pay off bonds as they mature -- at par.

Question: Many individual muni bond issues and many muni funds advertise as being insured. Is this an advantage?

Answer: Obviously, a medium grade muni bond that is insured is preferable to a medium grade that is not. But I personally won't buy any insured muni bonds. My motto is, "If it needs insurance, I don't want it!" That means that I buy only bonds rated AA (S&P) or AAA, in other words, I buy only investment grade bonds and these bonds don't need insurance to be sold -- they stand on their own.

I might as well say here that this whole business of insured investments is getting totally out of control. The whole country is being packaged, "insured", and sold to the public. My question is "Who insures the insurance companies?" I predict that within the coming decade, the security insurance business is going to turn out to be a national scandal. Many of these insurance companies would be insolvent in the face of a financial crisis -- and that is exactly when you need the insurance!

Question: I note on most charts that the major highs and lows on the D-J Averages are extremes rather than the actual closing prices. Why is this?

Answer: This method has always annoyed me. Actually, the daily high and low on the Dow is just a theoretical figure, not a point that was actually hit. Each day Dow Jones takes the highs struck by each of the 30 Industrials during the day. They then compute a theoretical high as if all the 30 Industrials had touched their high at a given time. That theoretical figure becomes the Dow high for the day. The same method applies to the daily low.

Dow Theory is interested only in closing prices. The reason is that the closing price is the actual price of the Averages after all the day traders, specialists, option traders and so forth clear out at the day's end. The resultant final figure is a real figure, minus intra-day manipulations and other speculative adventures.

Question: The huge rise in one Dow stock, General Foods, had added about 30 points to the D-J Industrial Average. So how can we now take the DJIA seriously in view of this distortion?

Answer: A study of many similar instances in the past indicates that the Averages adjust for everything, including the antics of a single stock. I therefore suggest that technicians take the current action of the Dow just as seriously as before. In June of 1979 Merck and IBM were included in the Dow in place of Chrysler and Esmark. At the time, many said that the inclusion of two great growth companies instead of two laggards would throw the Dow totally "out of gear". It never happened.

Question: Russell, for almost three decades you have been warning subscribers about the dangers of in-and-out trading. Why so skeptical?

Answer: Very simple, when you trade stocks or commodities you are trading against the house. The house in this case is the floor member who pays no commission and who is infinitely closer to the supply-demand statistics than you are. Over any extended period of time, you are not going to beat the dealer -- either in Las Vegas, the New York Stock Exchange or the COMEX. He's got the cards, you've got the hopes. I've watched the speculators over the years all trying to make a fast buck by in-and-out trading. For everyone who comes out ahead, there are a dozen who lose their capital.

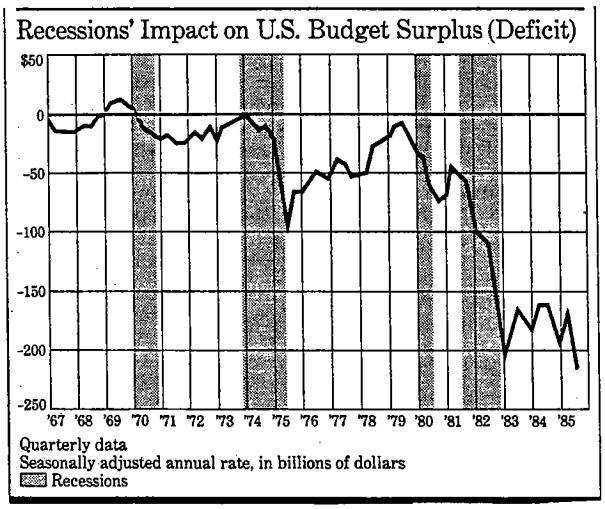
The big money producer in the stock market is the PRIMARY TREND. This is the great tidal force of the market, the trend that can and does make fortunes

for long-term investors who possess patience. The speculator does not take advantage of the primary trend because he is not in the market or a given stock over any extended period of time (and time may entail years).

Question: Russell, you've been talking about the danger of the deficit during the next recession. Actually, how will this country get out of the deficit situation when the next recession hits?

Answer: President Reagan has been running around hyping his new "fair tax". Frankly, I've never seen a bigger waste of time or misplaced energy from a chief executive. Nor have I ever seen crazier priorities. There's an emergency in this nation and it's called a hemorrhaging federal debt. The federal deficit is where Reagan should take his stand.

Finally on Sept. 20 the Wall Street Journal picked up the debt scent. In an article by Alfred Malabre Jr. the picture was drawn, along with a tell-tale chart (which I include here). Note that prior to the four recessions shown, the budget pushed up toward zero as prosperity brought in increased federal tax receipts and the unemployment rolls (a big budget expense) contracted.



But here in 1985 the budget deficit has hit new extremes (over $200 billion) and the nation isn't even in recession yet. What happens when the inevitable recession hits? Will the deficit quadruple from the pre-recession level as it has before? If so, we're talking about a half-trillion dollar deficit somewhere ahead.

If the deficit action continues into the next recession and say deficits of half a trillion dollars or more are generated, the credit and credibility of the US will come into question. "At that point," states the WSJ article, "people could begin to worry about the safety of even such minimum-risk investments as Treasury bills."

I'll be honest with subscribers. I don't know how this nation will bail out of the next recession. The deficits and debts of the US are now so persistent, so chronic, so horrendous that they have taken on a life of their own. What are the alternatives during a potential debt crisis during the next recession? Here are some of my ideas:

(1) A moratorium on debt, at least a temporary moratorium; (2) A state of national emergency with a national bank holiday and a whole series of new laws and edicts similar to the 1930s; (3) A turn to severe adversity during a great depression, and a wringing out of debts (i.e., bankruptcies) throughout the land. Such a depression would have to be worldwide in scope; (4) There would undoubtedly be great confusion as this nation has never had to wrestle with unmanageable debts during depression and a Federal Reserve Board that was helpless to restimulate the economy. A large part of the confusion would come from the public's puzzlement as to where the safety was. In the 1930 depression, there was no fear about the purchasing power of the dollar. The fear was that nobody had dollars. The next collapse could be different as the credibility of the dollar itself comes into question.

On Sept. 29 former Budget Director Stockman stated that the new emphasis on a "revenue neutral" tax bill is "preposterous". Stockman stated that a new tax is needed, a tax which would bring in revenues of $100 billion. I could not agree more. But (1) all the new revenue must be earmarked to pay off the deficit, and (2) another $100 billion must be cut off federal spending. Ultimately, if the President and the Congress won't take a stand on the deficits, the market will do the dirty work for them. I'll stake whatever reputation I have on that statement.

Question: I note that you now talk about buying gold coins whereas in the 1960s and 1970s you talked more about gold shares. Why the change of heart?

Answer: If this economy goes sometime in the next few years or so, it's going to go in a maelstrom of paper. Gold is money with no debt or lien against it. Gold is real money and real money (unlike paper) holds no risk. That's why gold pays no interest. Interest and the level of interest are a reflection of risk.

When you buy shares in a gold mine, you are holding a paper certificate of ownership. If a crisis arrives, the real value of gold will be that the owner has no paper between him and his asset. In a crisis, the only asset which is of unquestioned value and which represents unquestioned purchasing power is gold. On the desert water is king -- it is the medium of survival. In a major financial crisis, gold is king -- it is the unquestioned medium of survival.

NOTES & QUOTES: Those who believe that S. Africa's problems will end with the end of apartheid will be in for a shock. Ultimately, I think that the blacks will get the vote. But Western liberals forget that the history of Africa entails black against black as much as black against white. This little clip from last week's newspaper could be a hint of things to come:

UMLAZI, South Africa—Zulu Chief Mangosuthu Gatsha Buthelezi on Saturday challenged the African National Congress for the leadership of South Africa's 25 million blacks in what could develop into a major black-versus-black confrontation.

Even before Buthelezi spoke here, four people were killed and five others, including a 3-year old girl, were seriously injured in fierce fighting Saturday morning between his supporters and those of the African National Congress in neighboring Lamontville, outside Durban on the Indian Ocean coast. Two more were killed and seven injured Saturday afternoon in what appeared to be a revenge attack by the Buthelezi supporters for the earlier deaths.

You like contrary opinion? Try this on for size, from Michael K. Evans, president of Evans Economics Inc, out of Washington, D.C. (from the Sept. 17 LA Times):

> Oil prices have just about reached their trough and will now start to increase at about 5% annually for the next several years. This, of course, is hardly the consensus forecast. In 1981, most observers myopically claimed that oil prices must necessarily continue rising when the price was $34 a barrel. Now, the prevalent view is that prices must continue to fall for the most basic of all reasons: supply is greater than demand.
>
> As a general rule, when oil prices are more than $25 a barrel, most of the reduction in pretax profits from a decline in prices is reflected in lower windfall profits taxes for domestic oil companies, while after-tax profits remain relatively unscathed. At less than $25 a barrel, though, the windfall profits tax loses most of its bite, and the loss comes directly off the bottom line. Domestic producers thus have more of a vested interest in keeping prices from falling below $25 a barrel than they did from seeing prices reduced to that level.
>
> In addition, most of the oil industry is now planning to cut back severely on exploration and development for at least the next five years; witness the buying back of shares and the creation of master limited partnerships to return the dividends to stockholders on a tax-sheltered basis. Hence, the impetus is toward spacing out production more evenly, rather than lifting more oil in order to satisfy demand at a lower price.

Oil prices were raised by Egypt and Algeria, following the abrupt suspension last week of Soviet oil deliveries to many Western European customers and recent Iraqi air attacks on Iran's Kharg Island terminal.

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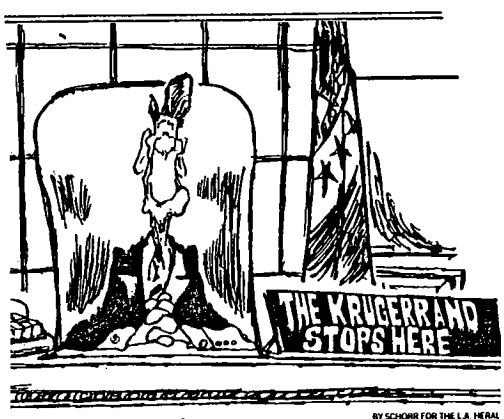
Goofy: You can buy all the gold Pandas you want at your local coin dealer (Pandas are minted by the Communist Chinese government). But the US is banning Krugerrand shipments to the US. Here one cartoonist's comment on the current Washington idiocy (if S.Africa wants to sell the US gold, it merely has to ship it in via anonymous bullion form).



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Frenchman Jean-Francois Revel wrote the shocking recent book, "How Democracies Perish". In a recent National Review article, Revel says a few things about the Russian near-genocidal acts in Afghanistan and about the shameful silence of the West:

> The second reason the West resists information about Afghanistan is the Soviet violations of human rights in that country. These violations are so widespread that our governments are scared even to raise the question, knowing very well that Moscow will, in its usual humiliating manner, refuse even to discuss it.
>
> That is why the press and other media greeted so tepidly the February 1985 United Nations report on the condition of human rights in Afghanistan by Felix Ermacora, Special Rapporteur — a report whose very existence is practically miraculous and which deserves a salute on that ground alone, but which was quickly relegated to obscurity.
>
> The repression takes two forms: The torture and execution of opponents and resistance fighters, and the massacre and deportations of the civilian population. In "Le Grand Jeu Afghan" (*Politique Internationale*, Spring 1985), for example, Michael Barry reports that between April 27, 1978 (the date of the pro-Soviet *coup d'etat*), and January 1980, 27,000 people were executed in the Poli Charki concentration camp, situated six miles east of Kabul.
>
> "This is not an estimate," writes Barry. "This is the simple addition of the names of the victims posted by the regime in public places to discourage the families from crowding around the gates of the prisons with packages of clothing and food."
>
> A major portion of the educated elite, the author adds, perished in this carnage: Diplomats, doctors, professors, engineers, non-communist officials, spiritual leaders. While estimating the number of those shot at "only" 12,000, the U.N. report corroborates the basic story.

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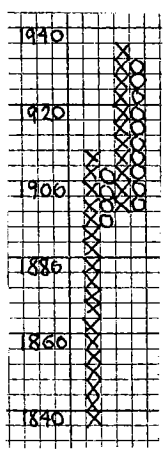
Russkies: The real reason why the Russians want the US to dump "Star Wars" is that the Russians are afraid that (1) they don't have the technology to keep up with the Star Wars of their own, and (2) the Russians are hurting financially and want to avoid the huge expense of a titanic technical advance. Furthermore, despite all the official and KGB efforts, the Russian people are learning that things are better in the West.

Susan Osnos, writing for the NY Times, was at the Assoc. of American Publishers' book fair in Moscow. Here are a few comments from her fascinating piece:

> By the fourth day, our presence was causing a traffic problem in the pavilion. By the fifth day, two uniformed police officers were trying to control the mayhem. But no number of officers — and there were several in plain clothes stationed right in the booth with us — could dampen the enthusiasm of the Russians waiting to see our exhibit.
>
> They had a chance, many for the first time, to look at uncensored photographs of American life. They plied the staff in the booth with questions about America. They pored over the Sears catalogue until someone stole it. Jane Fonda's aerobic workout was a major draw, and books about American films and theater were very much in demand.
>
> Some of these Russians were officials, but many were people in work clothes with calluses on their hands. Most of them had never had access to information that wasn't strictly controlled by the Soviet Government. The authorities did deny visas to several Americans and they confiscated a handful of books, but for the most part they were unable to circumscribe what went on at the fair.
>
> But none of this made the slightest difference to the thousands of Russians who filed by our exhibit, most of them after waiting in line for hours. These people were starving to find out whatever they could about America.
>
> The crowd in front of the booth was often five or six people deep. We distributed some 35,000 catalogues of the exhibit, in both Russian and English.
>
> On the whole, Moscow is a far more oppressive place than it was eight years ago, when I was last there, or even six years ago when the publishers' association last took an exhibit to the Book Fair. In 1979, the association organized a dinner, in a downtown restaurant, with some 40 Soviet authors, hosted by Mr. Sakharov. Such an evening is unimaginable now. Mr. Sakharov is in isolation in Gorky in precarious health. Of those who attended the dinner, almost all are in prison or exile, or have left the Soviet Union.



LATE NOTES: The accompanying chart updates the point & figures chart of the PTI. Not much change from last Special Report; the picture is of a potential top -- but no breakdown yet. Meanwhile, the D-J Utility Average which led the decline (it turned down on July 13) now appears to be turning up (see page 1 chart). The key low points (which must hold) are 1297.94 for the DJIA and 640.57 for Transports. As long as ONE or the other of these points hold, the price structure will be intact.

NEXT MAILING: Oct. 23